

MassHealth Prescription Drug Pricing FY20 H.1 Proposal

January 23, 2019

MassHealth prescription drug spending has nearly doubled from ~\$1.1B to ~\$1.9B since 2012, twice the growth vs. other MassHealth spending.

- Rapid prescription drug cost growth is expected to continue, with high cost drugs as a major driver.
- 20 drugs recently launched or pending FDA approval are expected to cost well over \$100 million annually, after expected rebates.
- Increasingly, new high cost drugs (at times ~\$1 million per course of treatment) are the only drugs in their classes. With no competition for these drugs, MassHealth lacks effective tools to negotiate rebates or cost-effective payment arrangements with manufacturers.

MassHealth maximizes rebates and management of prescription drug costs under current statutory and federal authorities.

- Current State procurement rules restrict MassHealth's ability to directly negotiate with drug manufacturers.
- Under current rules, if manufacturers choose not to negotiate rebates, MassHealth has no recourse.

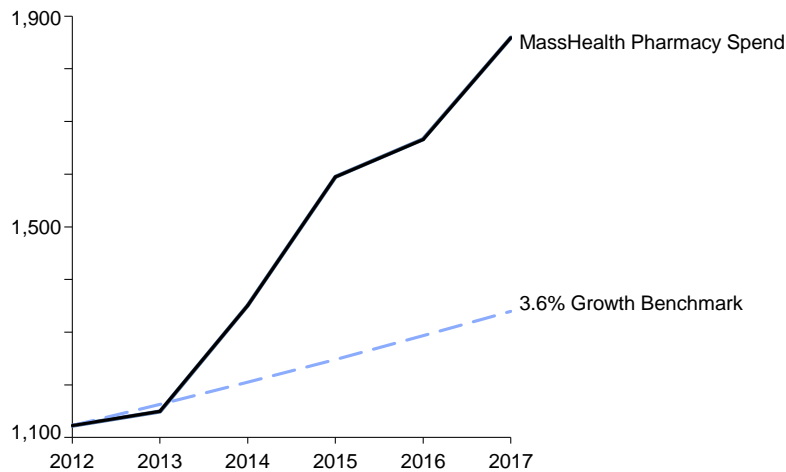
The Baker-Polito Administration's FY20 budget proposes to significantly enhance the tools available for MassHealth to negotiate lower pharmacy prices

- This updated proposal does not include any provisions to exclude drugs from the MassHealth prescription drug formulary.
- It establishes accountability along with transparency of drug prices and incorporates drug manufacturers into public processes that already exist in the state (at MassHealth and the Health Policy Commission) for health care providers and health plans.
- First, the proposal focuses on giving MassHealth greater negotiating leverage for prescription drug prices without impacting access to medically necessary prescription drugs for members. It includes:
 - 1) **Direct Negotiations:** Authorizes MassHealth to negotiate supplemental rebates and cost-effective, outcomes-based contracts directly with drug manufacturers.
 - 2) **Public Process:** If direct negotiations are unsuccessful, MassHealth can establish a target value for a given high-cost drug through a public process, similar to the rate-setting process that exists for most other services that MassHealth covers. MassHealth will seek a supplemental rebate from the drug manufacturer consistent with the publicly determined drug value.
 - 3) **Health Policy Commission (HPC) Accountability Process:** Leverage HPC processes and oversight tools that currently exist for health care providers and payers, to hold drug manufacturers more accountable.
 - If Steps 1 and 2 above are unsuccessful and a drug costs at least \$25K person/year or \$10M in the aggregate annually, MassHealth may refer high-cost drug manufacturers to the HPC. The HPC would be authorized to require manufacturers to submit disclosures and testify at public hearings to justify their prices.
 - 4) **Attorney General's Office:** If the HPC deems the manufacturer's price for a particular drug to be unreasonable or excessive, it may refer the matter to the Attorney General's Office for potential violations of the consumer protection laws.
- Second, MassHealth will also be implementing requirements to limit and make more transparent Pharmacy Benefit Manager (PBM) margins and "spread pricing" within its ACOs and MCOs.

Together, these MassHealth pharmacy initiatives are projected to save the Commonwealth \$80 million net in FY20.

MassHealth Rx spending has nearly doubled over 5 years

MassHealth pharmacy spend
\$ Millions



MassHealth pharmacy reforms: overview of approach

Step 1: MassHealth Direct Negotiations

- Identify highest cost drugs and engage drug manufacturers in direct negotiations to achieve cost-effective, value-based prices

Step 2: MassHealth Public Process

- If no agreement is reached, MassHealth can establish a target value for a given high-cost drug through a public process, similar to the rate-setting process that exists for most other services that MassHealth covers
- MassHealth may amend the proposed target based on public input
- MassHealth will seek a supplemental rebate from the drug manufacturer consistent with the publically determined target

Step 3: HPC Accountability Process

- If no agreement is reached AND the drug meets certain cost thresholds, MassHealth may refer the manufacturer to the HPC for review – consistent with existing statutory frameworks to hold providers and health plans accountable
- The HPC will request disclosures from manufacturers and may require public hearings to defend pricing
- If the HPC deems the price to be unreasonable or excessive, it may refer the manufacturer to the Attorney General for investigation under Chapter 93A

Step 4: AGO

- The Attorney General may investigate the manufacturer under the state's consumer protection law